



April 26, 2018

GASB's New Lease Standard

GASB Statement No. 87

OFM

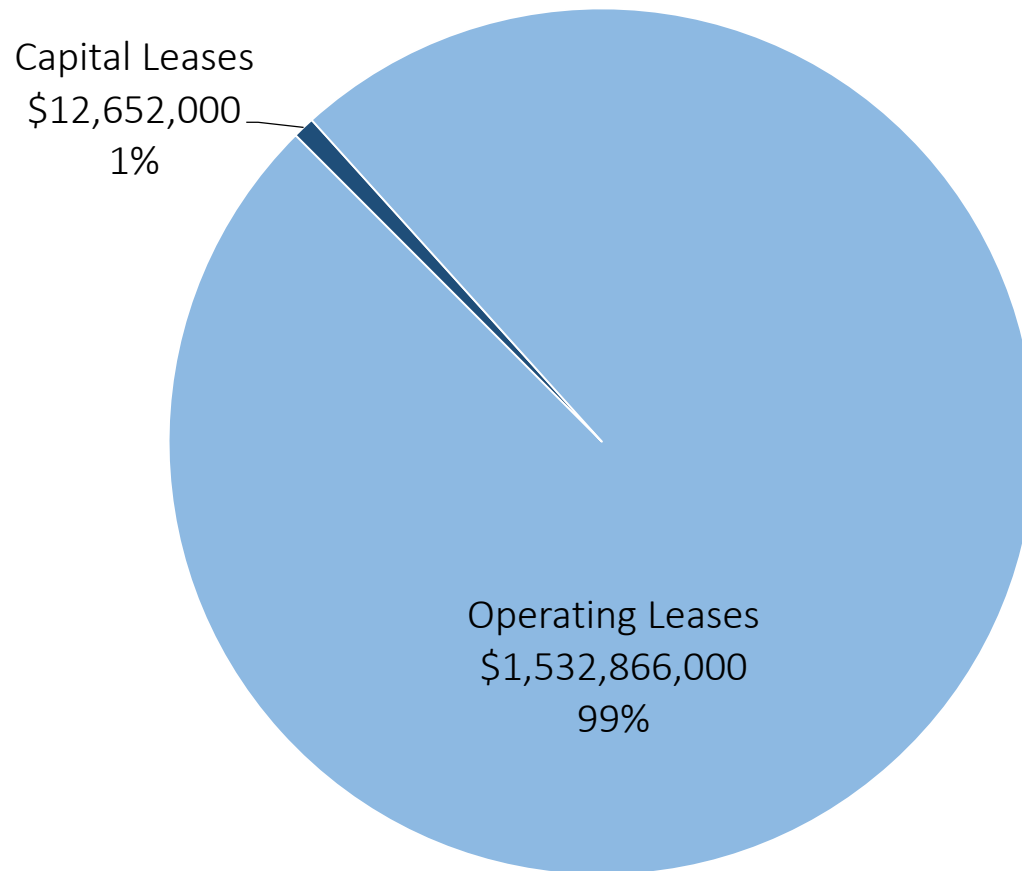
OFFICE OF FINANCIAL MANAGEMENT

AGENDA

- Overview of GASB 87, *Leases*
- State of Washington's Implementation Plan

Big change for most of the state of Washington's leases

Total Future Minimum Lease Payments as of June 30, 2017



Each year the state:

- Spends \$500 M on operating leases, and
- Receives about \$350 M in revenue as a lessor



Overview of GASB 87, *Leases*

Summary of GASB 87, Leases

- Eliminates the current operating and capital lease classifications
- Establishes a single approach to accounting for leases based on the principle that leases are financings of the right to use an asset
 - Lessees required to recognize a lease liability and an intangible right-to-use asset
 - Lessors required to recognize lease receivable and deferred inflow of resources
- Effective for fiscal year 2021

Definition of a Lease

A contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

Exclusions:

- Leases between state agencies
- Leases of intangible assets (software)
- Leases of biological assets (timber and living plants and animals)
- Leases of inventory
- Service concession arrangements
- Assets financed with outstanding conduit debt
- Supply contracts

Lease Term

- Noncancelable period, plus periods covered by lessees' and lessors' options to:
 - Extend the lease, if it is reasonably certain the option will be exercised.
 - AND
 - Terminate the lease, if it is reasonably certain the option will NOT be exercised.
- Excludes “cancelable” periods
 - Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend (rolling month-to-month lease)
- Fiscal funding/cancelation clauses ignored unless reasonably certain it will be exercised

Exceptions for Lessees and Lessors

- Short-term leases (12 months or less)
 - Lessee: recognize expense/expenditure as payments are made
 - Lessor: recognize revenue as payments are received
- Leases that transfer ownership and do not contain termination options
 - Lessee: record as a financed purchase
 - Lessor: record the sale of an asset
- Certain regulated assets (lessors)

Lessee Accounting Overview

	Assets	Liabilities
Lease Inception	Recognize intangible lease asset (right to use underlying asset) equal to value of lease liability plus prepayments and initial direct costs to place asset in use	Recognize lease liability equal to present value of future lease payments (includes: fixed payments, variable payments based on index rate, reasonably certain residual guarantees, etc.)
Subsequent Periods	Amortize the intangible lease asset over shorter of useful life of asset or lease term	Reduce lease liability by lease payments (less amount for interest expense)

Lessors Accounting Overview

	Assets	Deferred Inflow of Resources
Lease Inception	<p>Recognize lease receivable (generally includes same items as lessee's liability)</p> <p>Continue to report the leased asset</p>	<p>Recognize deferred inflow of resources equal to lease receivable plus any cash received up front that relates to a future period</p>
Subsequent Periods	<p>Reduce receivable by lease payments (less amount needed to cover interest)</p> <p>Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</p>	<p>Reduce deferred inflow of resources and recognize revenue over the lease term in a systematic and rational manner</p>

Note Disclosures

Lessees	Lessors
<ol style="list-style-type: none">1. General description of leasing arrangements2. Amount of assets recorded under leases, disaggregated by major asset class3. Amount of variable and other payments not included in lease liability4. Maturity analysis of future lease payments5. Lease commitments for leases that haven't begun6. Components of any net impairment loss	<ol style="list-style-type: none">1. General description of leasing arrangements2. Amount of inflows recognized (if not displayed on face of financials)3. Amount of variable and other payments not included in lease receivable4. Maturity analysis of future lease payments only if government's principal ongoing operations consist of leasing to other entities5. Additional disclosures if lease payments secure lessor's debt and for regulated assets

Other Considerations

- Contracts with Multiple Components should be split out and accounted for as separate contracts if practicable
 - Lease component (right to use a building) and a non-lease component (maintenance services)
 - Multiple underlying assets with different lease terms or that are in different major classes of assets
- Contract Combinations: contracts entered into at or near the same time with the same counterparty should be considered part of the same lease contract

Lease Amendments

- **Lease Termination (Partial or Full)**

An amendment to a lease contract that results in a *decrease* to the lessee's right to use the asset

- Lessee: Reduce the carrying value of the lease liability and lease asset. Report the difference as a gain or loss.
- Lessor: Reduce the carrying value of the lease receivable and deferred inflow. Report the difference as a gain or loss.

- **Lease Modifications**

An amendment to a lease contract that does not decrease the lessee's right to use the asset

- Lessee: Remeasure the lease liability and adjust the related lease asset. Report the difference as a gain or loss.
- Lessor: Remeasure the lease receivable and adjust the related deferred inflow. Report the difference as a gain or loss.

Subleases and Leaseback Transactions

- **Subleases** (lessee leases asset to a third party)
 - Treated as transactions separate from the lease
 - Lessee in the original lease and lessor in the sublease
- **Sale-leaseback Transactions** (asset is sold then buyer leases the asset back to the original owner)
 - Sale and lease portions of transaction should be accounted for as separate transactions
 - Any difference between the carrying value of asset and the net proceeds from the sale should be reported as a deferred inflow or outflow of resources and recognize over lease term
- **Lease-leaseback Transactions** (lessee leases asset back to lessor)
 - Accounted for as a net transaction

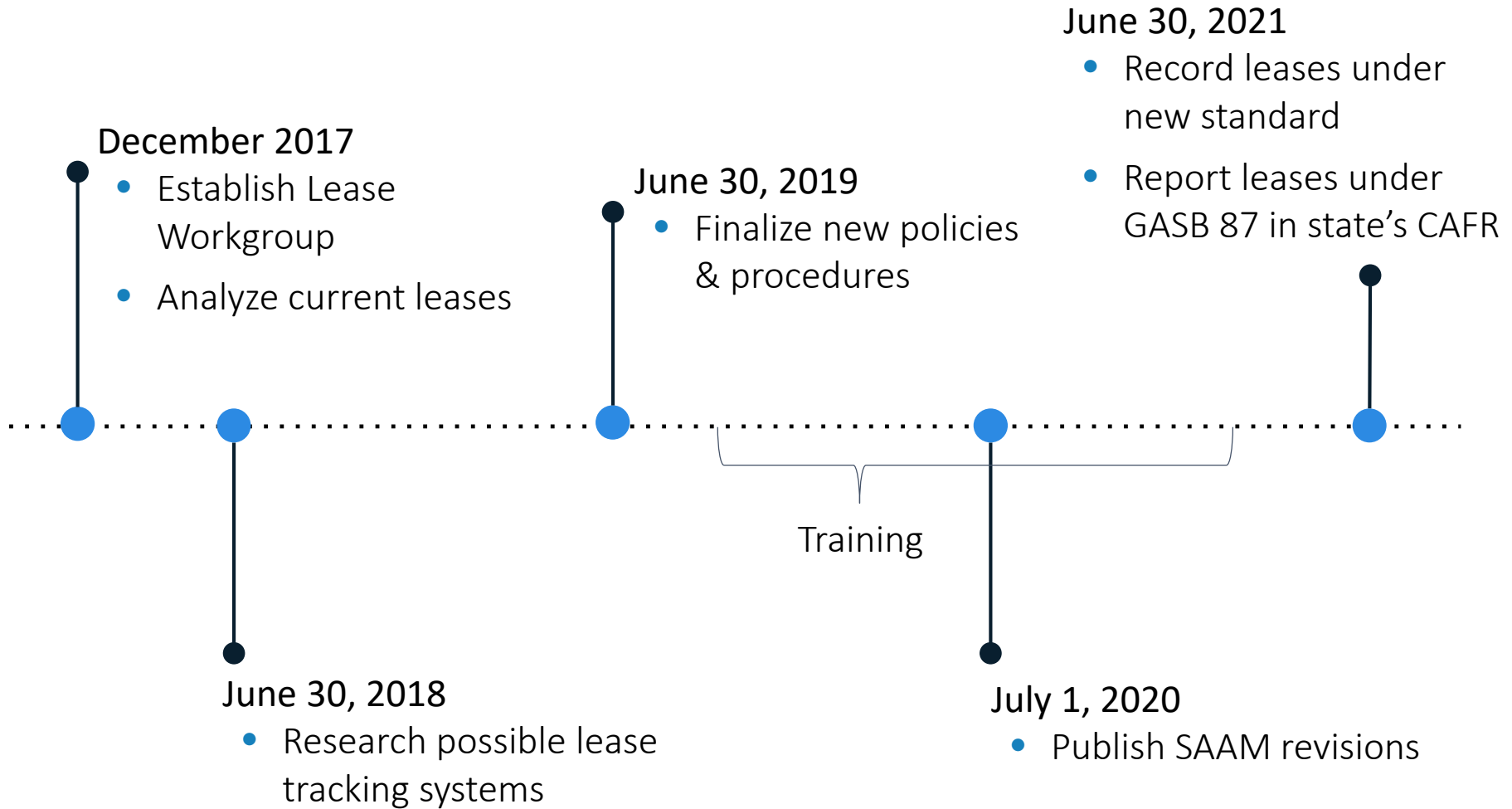
A grayscale photograph of the State Capitol building in Olympia, Washington, featuring a prominent dome and classical columns. The image is faded and serves as a background for the text.

State of Washington's Implementation Plan

What is OFM doing?

1. Revising SAAM policies, procedures, and illustrative entries related to leases
2. Working with Lease Workgroup to understand current leasing activities and provide feedback (DES, DNR, DOT, DSHS, WaTech, DOC, and UW)
3. Requesting funding for a lease tracking system or providing templates to calculate values
4. Providing training to agencies

TIMELINE



What should agencies do now?

- Review current leases
- Think about new processes
- Ask questions!



FOR MORE INFORMATION:

Anna Quichocho, CPA
Statewide Financial Consultant
(360)725-0187

Anna.Quichocho@ofm.wa.gov

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